Department of the Interior, May 21, 2003
Minerals Management Service,
Mail Stop 4024; 381 Elden St.,
Herndon, Virginia 20170- 4817
Attention: Rules Processing Team(Comments)
ADOI—Deep Gas Provisions

Subject: Proposed Deep Gas Rule (30 CFR 203.40-48)

Ladies and Gentlemen:

BP Exploration & Production Inc. (BP), and its affiliated companies, appreciate and welcome the opportunity to comment on the subject Proposed Rule for royalty suspension in connection with drilling for gas in deep reservoirs. BP commends the MMS for the significant efforts made to date and for the attention placed on encouraging new sources of gas in a frontier area such as deep gas. The MMS has stated in a recent interactive workshop in Houston with industry on this Rule that they believe such a Rule will benefit our nation and the oil and gas industry, and that the Rule as proposed is workable. In some respects we agree with these conclusions. We submit the following thoughts for your consideration.

BP is the largest oil and natural gas producer in the United States. We are currently active in the Gulf of Mexico and on the remainder of the North American continent. We will produce more than three (3) trillion cubic feet of natural gas this year in the U.S. We therefore view our role in the North American gas market to be major and critical to the energy security of the United States.

The U.S. natural gas market is in a state of transition. Natural gas useage is expected to grow at a minimum of 1-2 percent a year for the foreseeable future if we have a low growth economy in the U.S. A robust economy could mean demand growth closer to 5 percent annually. Natural gas producers will need to find billions of cubic feet of new discoveries each day to meet forecast demand. While this demand is increasing, our nation's production is declining at a rate of 5 percent annually. The solution is new or non- traditional sources of supply.

The Deep Gas Frontier

Although drilling on the Gulf of Mexico shelf has an extensive history, fewer than 5 percent of the wells drilled were drilled deeper than 15,000 feet subsea. The percentage drilled below 20,000 feet is far less than that. To plan, build, secure supplies and actually drill to depths below 15,000 feet requires leading edge technology, the assumption of enormous risks, and very large investments. BP's estimate of well costs differs from the MMS view of $11-25mm per well. Our estimates range from $20- 60mm. At depths below 20,000 feet the cost is at the high end of this range per well. BP believes that the bulk of the deep gas opportunity lies below 20,000 feet. Deep gas is truly a new frontier, but one in which we plan to be active.

The Proposed Rule

BP supports the Proposed Rule for differing royalty suspension volumes for wells drilled to different threshold depths. The cost and risk of drilling even several thousand feet deeper than 15,000 feet increase to a very large degree. Greater incentives for a greater cost and risk seem appropriate. The proposed Rule as such will benefit both large and small companies and can therefore benefit industry as a whole.

While BP supports these different incentive volumes, we intend to focus our efforts on wells drilled to greater than 20,000 feet. We support the maximum possible incentives for the Ultra Deep wells and suggest that the proposed 25 BCF volume of royalty relief is welcome, but not significant. The high cost and risk of drilling what is tantamount to a rank wildcat frontier require us to focus on cost and developing technology to efficiently explore at these depths. We note that Alternative 2 listed a proposed 45 BCF royalty suspension volume for depths over 18,000 feet. This is an improvement in our view, but is still not significant when forecasting our rate of return on a project. To address our issues of cost and and technology, we would support adding provisions to the Proposed Rule for a larger volume than the 45 BCF noted, for extension of lease terms for ultra deep drilling, and for further streamlining the permitting processes, an effort which we believe is underway already. We also support lengthening the proposed program from the current 5 year term, to 10 years.

The Proposed Rule outlines an alternative which utilizes an auction system. BP does not support this alternative as it does not appear that it will incentivize the drilling of wells that would otherwise not be drilled. The administrative procedure proposed for the auction alternative also seems cumbersome and complicated. We support the requirement that a well actually be drilled before relief is granted.

Thank you again for considering our comments on the Proposed Rule. We appreciate your sincere efforts to address the challenges of exploring in the deep gas frontier. If you need additional information or clarification please contact me at 281- 366-0939.Thank you for your consideration.

We would appreciate the MMS holding these comments confidential.

Yours Sincerely,

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